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The Imperial Bank of Germany

its Development Since 1875

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THE IMPERIAL BANK  
OF GERMANY  
ITS DEVELOPMENT SINCE 1875

BY

WING FOOE WONG

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FOR THE

DEGREE OF BACHELOR OF ARTS

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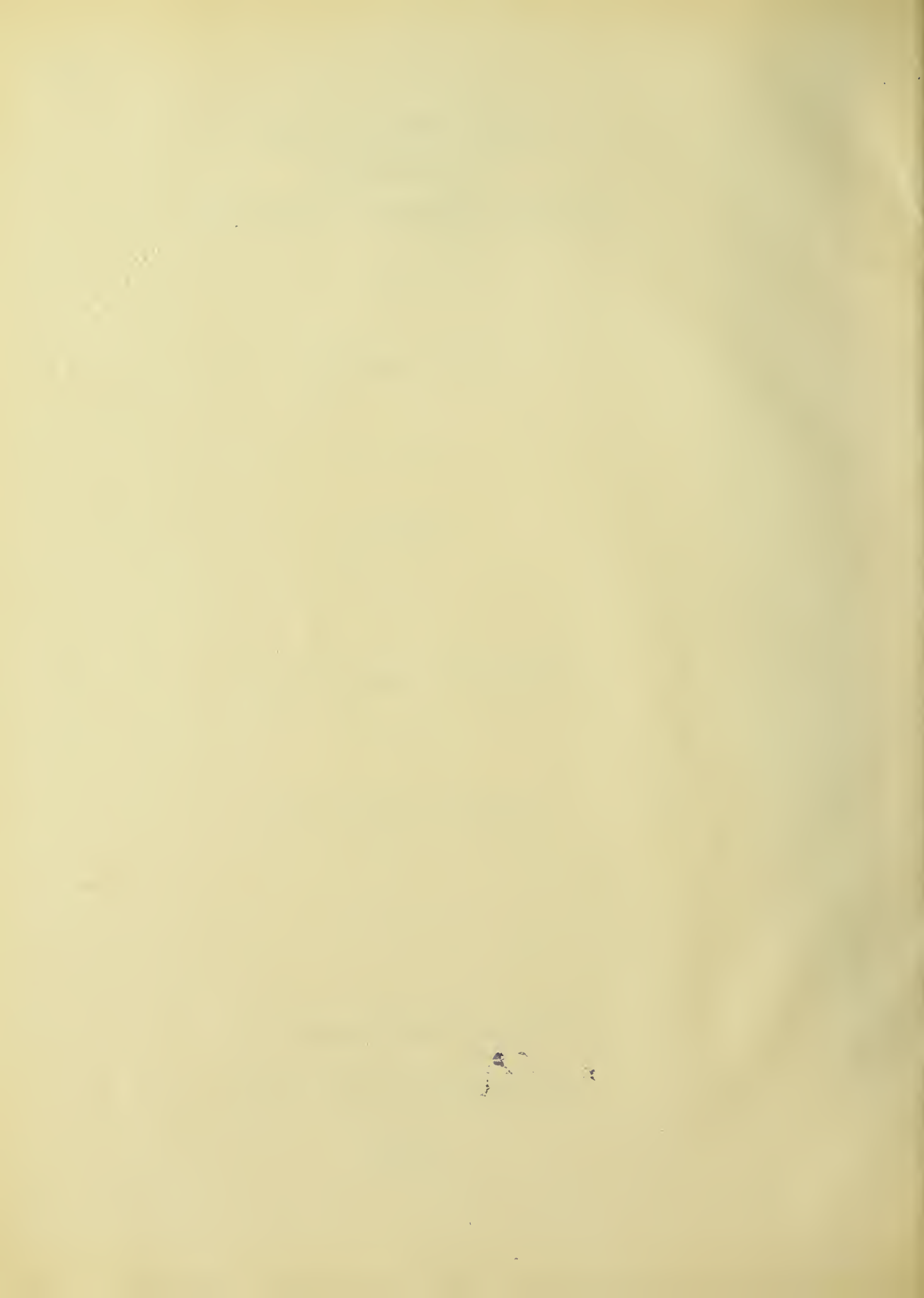
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Its Development Since 1875

IS APPROVED BY ME AS FULFILLING THIS PART OF THE REQUIREMENTS FOR THE

DEGREE OF Bachelor of Arts in Business Administration in the

College of Literature and Arts

*Maurice H. Robinson*

Instructor in Charge

APPROVED:

*David Kinney*

HEAD OF DEPARTMENT OF

*Economics*

254317







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# THE IMPERIAL BANK OF GERMANY ITS DEVELOPMENT SINCE 1875

## CHAPTER I

### INTRODUCTION

#### ORIGIN AND EARLY DEVELOPMENT

The origin of the Imperial Bank of Germany is closely linked with the unification of the Empire and the result of the Franco-Prussian War. The actual existence and operation of the Bank date only from December 1875, when the funds and records of the Royal Bank of Prussia were made over to the new institution in accordance with a convention between the Kingdom of Prussia and the Empire of Germany.

The privileges of the Royal Bank of Prussia were revoked in the view of the pending organization of the Imperial Bank, before the end of the year 1875. According to the agreements the shareholders were to receive the nominal value of their shares, and in addition half of the reserve fund; the whole property of the Royal Bank of Prussia went on the hand to Prussia.<sup>I</sup>

The Prussian Government received authority by a law of March 27, 1875 to conclude with the imperial government a contract concerning the cession of the Royal Bank of Prussia to the German Empire; the necessary authority was accorded to the imperial government in the Bank Act of March 14, 1875. The terms of the contract

<sup>I</sup> Banker's magazine vol. 54, p. 361, and vol. 63, p. 375.



were fixed by both parties in agreement with those which, during the above mentioned deliberations on the establishment of the Imperial Bank, had been proposed to the Bundesrat by the Prussian Government in November, 1874. The contract concluded between Prussia and the German Empire in accordance with these terms was ratified in May, 1875. The Empire took over the Royal Bank of Prussia on January 1, 1876, with all its privileges and duties, in order to transfer them, as provided to the Imperial Bank to be established. The cession was made so that the head of the Royal Bank of Prussia on January 1, 1876 assigned in writing the property of the latter to the Imperial Bank Directorate for further management. On December 31, 1875 the funds of the Royal Bank of Prussia were transferred to the Imperial Bank Directorate by a decree of the Prussian minister of commerce. On January 1, 1876 the most important features of the new system were put into operation.<sup>I</sup>

<sup>I</sup>

National Monetary Commission, the Reichsbank p.34-36





## CHAPTER II

## NEW BANKING SYSTEM

The adoption of the gold standard by the law of July 9, 1873 paved the way for the new banking system in Germany. This act declared that bills should be withdrawn from circulation before Jan. 1, 1876, if their value was not redeemed in Imperial gold marks. The metallic stock of Germany and the reserves of the bank had been chiefly of silver, and bank notes were redeemable in silver florins or thalers. The payment of the French war indemnity of \$ 1000000000 brought into the Empire and placed at the command of the Government a stock of gold, which became available for establishing the gold standard. The actual payments on account of the indemnity by the French Government were made chiefly in bills of exchange rather than in metallic money, but the proceeds of these bills in gold obtained in London and Paris, and a large fund of the yellow metal was rapidly accumulated in the German Treasury and the Imperial Bank. The coinage of Imperial gold coins from 1873 to the close of 1893 reached \$675,000,000 and the coinage of silver \$120,000,000.<sup>I</sup>

Such advantages as are derived from a strong central institution of finance have been conferred upon Germany by the Imperial Bank. Credit has been extended through its 275 branches and banking offices to the leading towns of the German Empire, and the seventeen State banks which decided to issue notes under the new system in 1876 have gradually been reduced to seven. These are mostly in Southern Germany, remote from the central Bank at Berlin. The Imperial Bank has provided the German Empire with a bank note currency, and the means of making transfers of funds without cost between the prin-



cial places in German. The total transactions of the Imperial Bank and its branches which were \$9,000,000,000 in 1876 increased to \$123,461,500,000 in 1910. The Bank thus performs in a large measure the work of a clearing house for the business of the Empire. It led also to the establishment of clearing house on English model in 1883 of which twelve are now in operation.<sup>I</sup>

<sup>I</sup> Bankers' magazine vol. 54 p.362. Rand Economic Hist. of Europe P.30  
National Monetary Commission, Bank & Currency of foreign country  
P. 361.





## CHAPTER III

## NOTES THE MOST IMPORTANT LIABILITIES OF THE IMPERIAL BANK

Bank notes are the most important liabilities of the Imperial Bank. Through these the Bank receives its special character, with these all other liabilities are connected and by these the aspects are determined. The right to issue notes is a privilege which has given rise to the legal provisions regulating the Bank's business activity and to the participation of the German Empire in the administration and in the division of the net proceeds.<sup>I</sup>

The regulations which govern the circulation of the Imperial Bank notes are of peculiar interest, because they have since been adopted by the Bank of Austria-Hungary and the Bank of Japan and have been suggested for the banking system of the United States. The system is based in some particulars upon the English system, but embodies an additional feature which permits a degree of elasticity which has never been possible in England except by the suspension of the Bank Act. The law of 1846 regulating the Bank of Prussia, fixed a limit of \$15,750,000 upon the circulation. The law of 1856 repealed this provision and left the Bank subject to no fixed limit upon circulation, except that notes were redeemable in coin on demand and that public sentiment required a coin reserve of one-third of the outstanding notes. This freedom of issue was restricted in the case of the Imperial Bank by the law of March 14, 1875, so that every mark issued above the limit of \$60,000,000 must be covered by coin, with the exception hereafter to be noted. A limit

I

National Monetary Commission, the Reichsbank p.68.



was also fixed for the circulation of the other banks which continued to issue circulation at all, and it was provided that the limit of authorized circulation of the Imperial Bank should be increased by the amount of the lapsed issues of the other banks.

This fixing of a limit of authorized circulation with the excess fully covered by coin, is the essential feature adopted from the English Bank of 1844. The Imperial Bank and the State banks which adopted the new system are not required, like the Bank of England, to hold public securities against their authorized circulation, but must hold at least one-third of the amount in metallic money or gold obligations and the remainder in good commercial paper. The status of the metallic reserve and the circulation during the first year of the operation of the Bank illustrated the working of the new law. The average reserve during the year 1876 was 510,500,000 marks. This would have permitted a circulation within the legal limit of 760,000,000 marks. The actual average circulation of the year was only 684,000,000 marks. The situation existing at that time made the authorized limit a considerable factor in the gross circulation.<sup>1</sup> The expansion of the banking business in Germany, its concentration in the hands of the Imperial Bank, the increase in the production of gold, and the retirement of some of the State banks, have gradually increased the metallic reserve and the gross circulation until the amount of the authorized circulation plays but a subordinate part. The circulation on December 31, 1905, was 1,320,000,000 marks and the the reserve 855,000,000 marks of authorized circulation and 1,740,000,000 marks of circulation subject to a special tax.<sup>2</sup>

<sup>1</sup> Banker's magazine vol. 51 p. 365

<sup>2</sup> Raifalovich, the March of Finance





## THE EMERGENCY NOTE CIRCULATION

It is the excess of circulation, subject to a special tax, which marks the radical departure of the German from the English system of note issue. This emergency circulation may be issued by the Imperial Bank at any time upon business assets, but is subject to a tax of five per cent per year. As the excess above the authorized limit, including the notes fully covered by coin, seldom lasts more than a few weeks, the law prescribes that the tax shall be computed upon the weekly excess at the rate of five forty-eighths (5-48) of one per cent. This is as near as may be to five per cent. annually, computed by the week. The Bank, therefore, in extending accommodation to commerce and money market, is hampered only by the rate of interest. While money is so plentiful that the interest rate keeps down to five per cent., there is no temptation to increase the circulation. The moment that the interest rate goes higher, there is a profit in expanding the circulation beyond the limit and the expansion almost invariable occurs. The system is hardly capable of abuse, because the interest rate must fall again if the Bank exceeds the limit of prudence in its issues and makes money plentiful, and the fall of the rate destroys the profit on the excessive circulation. The notes which are received on deposit and in settlement of discounts are retired and cancelled and the circulation is quickly brought within the legal limit.<sup>I</sup>

As a matter of fact, the German system has worked almost as admirably in supplying an elastic currency, as the Scotch and Canadian system have done within their respective fields of action. The first occasion on which the power to issue in excess of circu-

<sup>I</sup>  
Banker's magazine vol. 54 p. 364



lation was availed of by the Imperial Bank in December 1881. Issues above the limit were made in 1882, 1884 in 1886, three times in the latter part of 1889, twice in 1890, in 1893, in September, October, and December, 1895 and several times in the autumn of 1903. The excess of circulation above the authorized limit ran as high as 109,477,600 marks ( 26,000,000) in the latter part of 1889, but as the close of 1891 the cash reserve had risen so high that there was a margin of authorized circulation which had not been issued of 101,407,000 marks. There was a margin of 16,000,000 marks in 1892 and 123,000,000marks in 1894, but the pressure of the closing month of 1895 carried the circulation on December 31, 148,282,000 marks above the limit and subjected that amount to the weekly tax.<sup>I</sup>

The fact that the elasticity permitted by the system of note issues has been more beneficial than the more rigid system of Great Britain is indicated by the smaller number of changes in the discount rate of the Bank. There were three three changes in 1890 by the Bank of Germany as compared with eleven by the Bank of England; four at Berlin in 1891 against twelve at London; two at Berlin in 1893 against twelve at London.

The German system has been subjected to several severe tests, with credit to the system and safety to the country. One of these test was in 1893, when panic reigned in Australia and the United States and the reflex action of the stitution in those countries was strongly felt upon European exchanges. The Imperial Bank was affected also by the local conditions of a serious character. The Russian Government withdrew large deposit from Berlin, Austria-Hungary was bidding high for gold in order to carry out her monetary

<sup>I</sup>  
Banker's magazine vol. 5+ p.366



reform, and Italian and South America securities were thrown largely upon the Berlin market. The interest rate ruled higher throughout the year 1893 at the Imperial Bank of Germany than for a long previous period. It was four per cent. when the year began, and although reduced on January 1, to three per cent., and on August 1, to five per cent., where it remained until January 9, 1894. The Bank maintained an excess of circulation from February, 1893, until March 30 and again passed the limit on May 20. The money market was thus eased to some extent, but the Bank was only 8,000,000 marks within the authorized limit at the close of the year.<sup>I</sup>

<sup>I</sup> National Monetary Commission, the Reichsbank p.68-82  
Banker's magazine vol.74 p.264





## CHAPTER IV

## THE SYSTEM OF TRANSFERS

Transfers are cash-saving methods of payments between patrons of the same bank; instead of a cash payment a transfer is made on the books of the Bank so that the sum is deducted from the account of the payer and added to the account of the payee. With this is connected the acceptance of cash for current accounts and the payment of cash from the accounts, also settlement of all kinds, credit and debit, with the owners of accounts.

The transfer of large sums on the books of the Bank has great advantages over cash payments. The trouble of testing and counting, the danger, and the cost handling cash are done away with. The completed payment is recorded by the transfer on the books of the Bank. Deterioration, unavoidable in circulation money, is avoided when the money lies idle in the bank; the loss of interest incurred in the delivery of cash is also avoided.

The advantages are sensibly increased by the circumstance that after transfer have been generally adopted there is no possibility of withdrawing all balances, because the business world in critical times can not do without the facilities of transfers, and therefore can not afford to withdraw the balances of their current account. Consequently, the bank can use current accounts moneys for granting short credit. This is another important saving of cash. The balances on current accounts help the market by credit granted; they themselves are created in part by the granting of credit.<sup>I</sup>

It is a necessary condition of a system of transfers that the

<sup>I</sup> National Monetary Commission, the Reichsbank p.87-92



possessor of an account can withdraw in cash the balances in his favor. The deposits on these accounts are therefore demand liabilities, and are to be treated by the Bank like notes. On account of this similarity, the transfer accounts are particularly suitable for bank of issue. The advantages of the combination of notes and transfer are especially noticeable, in that the ready money flowing to banks of issue as a result of transfer accounts diminishes the uncovered note circulation.

### ORGANIZATION OF THE TRANSFER SYSTEM

Immediately after the adoption of the Bank Act, the Directorate of the main bank in Berlin began to prepare for the organization of the transfer system.

The following are the essential features of the transfer system:

The signature of the depositor to the printed "Regulation for transfers at the Imperial Bank" is required as proof of the conclusion of a contract. The account is opened by a cash deposit called balance. This is increased by further cash deposits, by transfers from other current accounts and by an adjustment of transactions between the Bank and the depositor (crediting of discounted bills, granting of loans on collateral etc.). The depositor can close the account by drawing out the balance in cash, by transferring it to other current accounts and by settling with the Bank (debiting bills made payable at the Bank by the account holder of collateral loans due from him)<sup>I</sup>

The red check, which represents the real transfer draft, was introduced for transfers from one account to another. The white checks serve for withdrawal of cash and for settlement of transactions with the Bank. The red check bears the name of the person to

<sup>I</sup>  
R. Kock, German Banking Law p.183





whom the transfer is made, and is not transferable. The white check on the contrary, is made out in the name of the payee, with the addition or bearer. For making payment between different places the red check, that is, the transfer from account to account, is used almost exclusively, as a fee is charged for cash payment from one account to another by means of a white, and such payment can be made only after it has been determined whether a balance is at hand at the branch.<sup>1</sup>

The transfer facilities provided by the Imperial Bank are open to all classes of population, to institution, and to public authorities. The Bank opens an account for anyone who enjoys the necessary confidence. The Bank expects the holder of the account to keep a balance corresponding to the labor involved. A fixed rule is not given; the amount of the minimum balance can be fixed only according to the extent to which the depositor claims the services of the Bank, nevertheless, the opening of account with tradespeople is dependent on a previous understanding about the minimum balance, which should not go below 1,000 marks in small places, and at large trade centres must amount to several thousand marks. If the transactions on the account increase unexpectedly, and if the Bank is not sufficiently compensated in other directions, it can request the holder of the account to strengthen his balance. The Bank can, at any time and without assigning reasons, give notice to terminate an account. This generally happens when an account is misused.<sup>2</sup>

<sup>1</sup>

R. Kock, German Banking Law p.183-186

<sup>2</sup>

National Monetary Commission, the Reichsbank p. 87-III



## ADVANTAGES OF THE TRANSFER SYSTEM TO THE IMPERIAL AND STATE TREASURIES

Transfer transactions between the Imperial Bank and the imperial and state treasuries have proved advantageous. The treasuries have not only been saved the expense and dangers of numerous consignments of cash, but have also been relieved of holding larger amount, of making the requisite arrangements, and of bearing the risks connected therewith, in that they can at any time supplement their supply of money from the holding of the Imperial Bank and thus increasing the metallic cover for its notes, they turn currency to account which would otherwise lie idle. The advantages to the Imperial Bank are considerably diminished because the imperial and state treasuries usually make the greatest demand on the metal reserve of the Imperial Bank just at those period when claim from other sides are heaviest.

The imperial and state treasuries, by entering the transfer system of the Imperial Bank, have gained the advantages of using transfer arrangements for payments to anyone; there is only one restriction, namely, that transfer accounts are not to be employed regularly in payments of wages, salaries, and pensions.<sup>1</sup>

The following figures show the extent to which the services of the Imperial Bank are claimed by the treasuries of the Empire and the federal states. At the close of 1899, transfer accounts were kept at the Imperial Bank for as many as 1,451 such treasuries; 2,665,000,000 marks in cash were paid into these accounts, and 5,940,000,000 marks remitted by means of red checks, 1,211,000,000 marks were withdrawn in cash.<sup>2</sup>

<sup>1</sup>

R. Kock, German Banking Law p. 176. <sup>2</sup> Banker's magazine vol. 74 p. 263



The total transaction on transfer for accounts of the Empire amounted in 1900 to 10,892,000,000 marks; on the old account of the main imperial treasury they amounted to 1,485,000,000 marks in the first year of its existence, and 2,154,000,000 in the year 1897. The increase shows how much more the Imperial Bank's arrangements are utilized for the affairs of imperial treasuries since the transactions have been carried by means of transfers.<sup>I</sup>

<sup>I</sup>

National Monetary Commission, the Reichsbank p.303





## CHAPTER V

## KEEPING AN ACCOUNT AT THE BANK

The keeping of an account at the Imperial Bank, and the management of the accounts, are surrounded with much more formality than with banks in the United States. Permission to establish an account can be granted only after consideration by the board of directors and upon compliance with a number of formalities. There are different forms of checks for making transfers between customers of the Bank and outsiders. Red checks, which cannot be endorsed to a third person, are employed for transfers between those keeping accounts at the Bank. They must be presented at the Bank before half-past four o'clock in the afternoon or become subject to a charge of half a mark (12 cents) per check. There is no distinction, however, between checks drawn payable at the banking office of the place where they are drawn and those payable at an office elsewhere so that the transfer of funds throughout Germany is greatly facilitated by the Bank. The withdrawal of funds is made by means of white check, upon which the Bank collects a commission of one-fiftieth of one per cent., but not less than fifty pfennings, when they are received for payments to the Bank or are presented at any other place than that where the drawer has his account. The checks are furnished in books of fifty each, for which the holder must give a receipt to the Bank.<sup>I</sup>

<sup>I</sup> National Monetary Commission, Miscellaneous on German Bank p. 295



## CHAPTER VI

## KINDS OF BUSINESS TRANSACTED BY THE BANK

The Imperial Bank conducts several branches of banking and deposit business, besides the issue of circulating notes, the purchase of bills of exchange, and loan upon commercial paper. Among these functions are the reception of deposits, the purchase of gold and silver bullion and foreign coin, advances upon securities, the collection of commercial bills for patrons, the purchase and sale of paper and securities and the precious metal for patrons and the custody of objects of value and negotiable securities. The deposit business of the Bank includes the reception of sealed deposits of cash and other articles, closed and stamped for a compensation based upon the value of the space at the particular branch at which they are offered. These deposits must be accompanied by the full name of the depositor or the firm making the deposit, but no questions are asked concerning the contents of the parcels. The maximum value insured is 5000 marks (\$1,200), but special contents are accepted for higher value upon the payment of a higher fee. There is no insurance against the damage of papers by water in case of fire. The storage fee for parcels 30 centimetres in height and width and 40 centimetres long (12x16 inches) is ten marks (\$2,38) per year and for double these dimensions, twenty marks, larger packages are not received. The insurance fee for every 1000 marks is 25 pennings (6cents) per year.

The Bank accepts for collection the coupons and certificates of dividends of institutions payable in Berlin in the money of the Empire at fixed prices, and accepts them for negotiation on the Exchange when they are not thus payable. When they are payable at





the Bank or any its branches, collection is made at the cost of transfer and for a commission of one-eighth of one per cent. The Bank also acts for its patrons at the same charge in presenting matured or called securities for payment or conversion, when payable at the location of the bank or one of its branches, and at a higher charge conducts the necessary negotiations for converting any securities into cash. Several similar services, such as the conversion of provisional certificates into final titles, are also performed at a moderate charge.<sup>I</sup>

The Imperial Bank performs a number of important services for the Treasury without direct charge. It receives and pays out without compensation the fund of the Empire to the amount of the credit accorded by law and extends the same advantages to the States of the Confederation. The operation of the Treasury and its branches are performed through the Bank and the Fiscal Department of the Treasury is united with that of the Bank. The branches are availed of by the governments of the several States for making their payments and deposits. The payments and receipts of the Bank on the current accounts of the Government during 1905, were 1,972,583,341 marks for the German Empire, 2,151,354,291 marks for the Kingdom of Prussia, and 108,980,000 marks for the Grand Duchy of Baden. Only a few of these requirements were imposed upon the Royal Bank of Prussia, but were imposed by the new charter upon the Imperial Bank, with the view of promoting the unity of fiscal operation throughout the Empire. The Imperial Government has a share in the profits of the Bank, which amounts to one-half of the excess of dividends above three and a half per cent., after twenty per cent.

<sup>I</sup> National Monetary Commission, the Reichsbank p. 293-295



of the excess has been carried to the reserve fund, and increases to three-fourths of the excess of the profits above six per cent.<sup>1</sup>

There has been in recent years the same demand in Germany as in France, Switzerland and Russia for the intervention of the State in the matter of extending credit to laborers and farmers. The Imperial Bank has for many years endeavored to assist these classes by rediscounting pieces of commercial paper for very small amount but the Bank was forbidden by its fundamental law to discount paper for more than four months.<sup>2</sup>

<sup>1</sup> R.Kock, German Banking Law p.135

<sup>2</sup> National Monetary Commission, Miscellaneous article on German Banking p.300



## CHAPTER VII

## THE PURCHASE AND COLLECTION OF BILLS AND SECURITIES

The most important assets of banks of issue are discount on bills. Their notes may be presented daily for redemption, and the sums deposited with them, principally through transfer transaction, may be redemanded daily. Since in experience, however, such presentations and demands are not made all at once and suddenly, the banks are not forced to hold full cash cover for all demand liabilities, but can invest at interest a part of such money and notes. This investment must, however, be safe, and the banks may put out their funds only for short periods, in order that on the other, the presentation of notes and the cash withdrawals may balance so far as possible. That is attained most easily by investing in bills which have only a short time to run. The Bank Act therefore prescribes that the Imperial Bank must hold ready, for its notes not covered by cash, discounted bills maturing at the latest in three months, on which, as a rule, three, but at least two solvent parties are liable. Departing from the Prussian Bank regulation of 1848, which admitted as cover for one-sixth of the notes in circulation not only bills but also claims on collateral loans, the Bank Act recognizes in addition to cash holdings only bills investments as subsidiary cover for notes.<sup>I</sup>

The Imperial Bank purchases bills both on inland and foreign. In the nature of things of the Imperial Bank, most of the bills in its possession are payable at home. The mission of the Imperial Bank is, first of all, to satisfy the domestic demand for credit,

<sup>I</sup> National Monetary Commission, the Reichsbank p. 125





and to utilize by bills purchase for domestic enterprises the money flowing to it during national economic activity. The principle of not buying bills from foreign firms must also be judged from the home money market point of view.

The Imperial Bank has never made use of the right conferred on it by the Bank Act to dispose of its bills on inland places. Established as a central bank of issue with considerable funds of its own and with far-reaching powers it is the strongest and last source of credit in the land; it can not, like other banks, make claims for credit on a higher institution.

The Imperial Bank must publish its current rate of discount. The central committee must be consulted regarding the discount rate to be fixed by the Imperial Bank Directorate, and the changes in the regulations and periods for which credit is granted; the weekly statement of holdings in bills must also be submitted to the committee for inspection.<sup>I</sup>

<sup>I</sup>  
R. Kock, German Banking Law p.135



## GENERAL RULES FOR THE PURCHASE OF BILLS

The general rules according to which credit is granted by the Imperial Bank in the purchase of bills, is that of the parties liable on each bill purchased, two as a rule must be known to be solvent. The Imperial Bank insist, that a bill reaching its office be supplied with the acceptance of the drawee. Besides the number of signatures, the tests of solvency of the parties liable on the bill is of greatest importance to the Imperial Bank; the security of claims acquired through bills depends in the first place upon the ability of the parties to pay. This gives the Bank the assurance that the bill will be paid in cash on the day of maturity. The persons taking credit must be well known to the executive as reliable. For this reason the branches may, as rule, discount bill only for such credit-seeking persons whose residence is in their business circuit.<sup>1</sup>

As to the amount of personal credit which the Imperial Bank grants to persons or firms enjoying its discount privilege, the pecuniary circumstances and the personal qualities of the persons also the nature and extent of business, are determination. The branches must send to the Imperial Bank Directorate suggestions for the determination of credit. When it is a question of larger credits in provincial branches, the advice of the deputies of the main branch in the circuit to which the branch in question belongs must be sought. Credit are finally fixed by the Imperial Bank Directorate. Firms which according to their circumstances or the character and reputation of their members, are not deserving of confidence are not allowed to do business with the Imperial Bank.

<sup>1</sup>National Monetary Commission the Reichsbank p.128



A well organized information bureau at the various branches determines the capacity for credit. Information is gained through personal relations of the executive officers with the commercial class, by inspection of the balance sheets of the persons obtaining credit, and by other means. The officers observe the strictest silence with regard to any matters of credit coming to their knowledge.

The branches keep perfect control, through their books, of the actual use of the personal credits granted, and this control permits at all time a survey of the total liabilities on bills of each person taking credit at the Imperial Bank, also of the total sum for which each person is debited with bills.

The actual censorship of bills by the Bank extends not only to proving the solvency of the parties liable on the bill, but also to the business origin of the bill offered for discount. The knowledge of the economic purpose of the bill, also of the circumstances to which it owes its existence, is of great importance in judging the certainty of its redemption on the day of maturity. In general, the requirement of the Bank are met only by a bill which, in the movement of its formation, starts from a completed transfer of property the parties liable on it and is destined on maturity to balance this transfer. Such bills which originated in the purchase or sale of merchandise, are an investment specially suitable for the Imperial Bank, since the goods which are delivered into the hands of the debtor as equivalent for the bill are by nature suitable for quick turnover. The resale of them gives the debtor funds for redemption of the bill on maturity. Under similar conditions, bills based on purely credit transactions are unobjec-





tionable to the Imperial Bank for discount, even though the significance of the credit operation expressed by the bill is not always easy to determine; special care is therefore necessary in the purchase of such bills.<sup>1</sup>

On the other hand, the Imperial Bank must try to exclude from its portfolio all bills which do not arise in the above mentioned transaction. It has, like its predecessor, declined to purchase accommodation bills, jobbing bills, and financial bills, the creation, acceptance, and indorsement of which are solely to get the necessary number of guarantee signature for raising funds or for speculation purpose. This definition include also direct drafts drawn with the same intention between banking houses for long terms, also those bills which can not be based on business transactions on account of the vocation or business of the guarantors.<sup>2</sup>

<sup>1</sup> National Monetary Commission, the Reichsbank p.130

<sup>2</sup> J. Riesser, The Great German Banks p.307-318



## CHAPTER VIII

## STATEMENT OF THE BANK CONDITION

The periodical statements of the Imperial Bank are brief and comprehensive. They are required on the 7th, 15th, 23d, and on the closing day of each month. There is no separation of the issue and banking department, as in England, but the entire resources in cash, bills of exchange and loans are set over against the liabilities, consisting of capital, reserve, circulating notes and other demand obligations. The resources of the Bank are thoroughly liquid as set forth in the weekly statement, and include no mass of mortgage obligations and other long time assets. The following is the transaction of the statement for December 31, 1907.<sup>I</sup>

Resources		Liabilities	
Gold bullion	\$22,944,944	Capital	\$42,842,000
Cash	144,685,860	Surplus	15,425,666
Imp. Treasury notes	17,955,263	Surp. for doubtful cl.	777,308
Imp. Bank notes	545,825,266	Bk. notes circula.	1,000,518,768
Notes of other banks	784,955	Current & tran. acct.	158,738,214
Bill Discounted	356,001,755	Deposits (not bear int)	193,174
Loan on collateral	86,702,816	Taxes due to treasury	
Securities	28,987,688	upon note issue---	1,382,966
Bal. with corresp.	2,966,874	Sundry Liab.	3,835,934
Overdue bill	1,007,049	Net profit for 1907	10,953,129
Sundry assets	13,039,402		
Real Estate	13,283,006		
	<u>1,234,615,099</u>		<u>1,234,615,099</u>

<sup>I</sup> National Monetary Commission, Bank and currency system of



The commercial bills or letter of exchange, in the language of European finance, include both domestic and foreign bills and the two items of such bills and loans on securities are closely watched from week to week with a view to determine the volume of trade. Domestic bills offered for discount must bear the signature of at least two substantial individuals or firms(usually three), and must be endorsed at the banking office of the locality where they are payable. In reckoning interest, thirty days are counted for each month, save for the notes maturing on the last of February. The minimum term of interest is four days for those payable at the place where purchased and five days for those payable elsewhere, for bills in parcels of ten thousand marks or over, and ten days for all other bills.<sup>1</sup>

The loans on securities are usually smaller in amount than the other classes of loans. The Act incorporating the Imperial Bank carefully defined the classes of securities upon which advance can be made only for a period of three months or less. The permissible securities include certificates of the debts of the Empire or of a German State or municipal corporation upon which the interest is guaranteed by the Empire, or by one of the Federal State; fully paid up shares and first mortgage bonds; shares of German corporations and railways in actual operation; certificates of German land banks, agricultural banks and commercial banks, when under the supervision of the Empire, and German mortgage banks, in the proportion of not more than three-quarters of their market value; interest bearing debt certificates, payable to bearer, of States outside Germany or obligations of foreign railways guaranteed by the

<sup>1</sup> Banker's magazine vol.73 p.284





Government, in proportion of fifty per cent. of their value; and certificates of deposits of colonial produce, warehoused on German docks, for two-third of their value. The greater proportion of the securities upon which advances are made are of German origin, but the directors have shown some liberlaty in admitting foreign securities to the publishes lists. The Bank reserve the right to sell securities deposited for a loan, without any legal proceedings, when the borrower is in default. The sale is made by one of the agents of the Bank, and principal, interest, and cost are deducted from the proceeds returned to the borrower.<sup>I</sup>

<sup>I</sup> National Monetary Commission the Reichsbank p.145-6



## CHAPTER IX

## THE PROBLEM OF REGULATING MONETARY CIRCULATION

The chief task of the Imperial Bank, according to section 12 of the Bank Act, is the regulation of the monetary circulation of the whole Empire. It is most important that an equilibrium be maintained between currency and money demand. The Bank solves this problem through note issue; by its discount policy it promotes the importation of gold from abroad, checks the exportation of gold to other countries, regulates the domestic demand for money so that the demand can be satisfied without a dangerous extension of uncovered note issue. It also cooperates in supervising the currency a task mainly incumbent on the ministry of finance. It watches the purity, full weight, and good condition of the various kinds of currency, and furthermore, it distributes the whole currency and the various kinds of coins over the different division of the Empire in accordance with changing requirement of trade.<sup>I</sup>

THE REGULATION OF CURRENCY WITH RESPECT TO ITS GOOD  
CONDITION.

The German Government has made a number of regulations for imperial and public treasuries concerning the treatment of counterfeit, worn, and mutilated coins or notes. These regulation are contained mainly in a proclamation of the Chancellor dated May 9, 1876. The officers of the Imperial Bank have also been intrusted in the regulations issued by the Imperial Bank Directorate to act in accordance with the provision in the proclamation of the Chancellor.

<sup>I</sup>

National Monetary Commission, the Reichsbank p.305



According to these instructions counterfeit and debased imperial coins coming into the hand of the Bank officers are to be held. If the counterfeit piece is at once recognized as such, notice is given immediately to the proper justice or police authorities. In case the impurity is doubtful the coins is sent for examination to the imperial mint. Legal coins of the Empire or federal states, which are genuine but have been damaged illegally are also to be held, rendered unfit for circulation by breaking or cutting, and handed back to the person delivering the same, even when the coins have not lost in weight. This procedure, however, is not followed for coins which have defects in coinage or coins which are damaged so slightly that they are still good as circulating medium. Reimbursement for coins which defective minting is made by the imperial mint at Berlin. Such coins received by the Bank officers are to be sent quarterly to the mint. The amount is debited on the account of the main Imperial Treasury. Imperial gold coins which no longer have the minimum legal weight, also talers and imperial silver, rickel, and copper coins which have suffered a considerable loss in weight or are no longer easily recognizable, are accepted at full value. Accumulated coins of this description are sent at the end of each quarter to the main imperial treasury and refunded from the latter's account.<sup>I</sup>

In the regulation for the Imperial Bank officials the latter are urged to weight separately each gold coins received, since counterfeits are detected without fail by such a procedure. An exception to this rule is made, apart from the bags put up by public authorities, only in the case of bags delivered by well-known

<sup>I</sup> Nationa Monetary Commission, the Reichsbank p.308





firms or mercantile houses and properly closed with their seal. In case of bags of this kind it is not necessary to weigh the individual coins when the net weight of the given number of coins. At the head office in Berlin there are automatic balances which weight automatically 7,000 to 7500 gold coins an hour and throw out worn coins that are below the minimum current weight.

Counterfeit or falsified imperial treasury notes are treated by the offices of the Bank in the same way as counterfeit and debased imperial coins. Imperial treasury notes, the genuineness of which is doubtful, are sent to the imperial debt commission to be tested. Damaged and soiled imperial treasury notes are taken in payment by the offices of the Bank, but are not reissued. They must be sent to the main treasury of the Imperial Bank. The same course is followed with counterfeit and damaged notes of the Imperial Bank.<sup>I</sup>

<sup>I</sup> National Monetary Commission, the Reichsbank p.309



## THE REGULATION OF THE LOCAL CIRCULATION OF CURRENCY

The distribution of money in accordance with the necessities of the locality is a task of great importance, and the Imperial Bank has undertaken to fulfill this special task. The Bank's duties include above all the redemption of notes. The main purpose is to maintain in full the value of the Imperial Bank's notes and to safeguard the German standard. This duty of redemption, however, makes it possible to adjust any superfluity of notes and lack of metallic currency. The Imperial Bank is legally obliged to exchange its notes for current German money, upon presentation at its head office in Berlin and at its branches as far as their cash holdings permit.

The obligation is also imposed on the Imperial Bank by the Bank Act to accept notes of private banks of issue. In Berlin and at its branches in cities of more than 80,000 inhabitants, also at the location of the issuing bank, the Imperial Bank must accept in payment, at full face value, the notes of those private banks of issue which have subjected themselves to the regulations of the Bank Acts; the Imperial Bank may present these notes for redemption or employ them for payment, only at the issuing bank, or for payment at the place where the latter has its head office.

The acceptance of these notes by the Imperial Bank guaranteed them a certain eligibility for circulation, in contrast to the notes of those banks which have not conformed with the provisions of the Bank Act and the circulation of which is prohibited outside their province. The restrictions on the employment of these notes in payment lead private banks of issue back again into their natural field of circulation, and limit their actual circulation, so far as practicable to their own territory.<sup>I</sup>

<sup>I</sup> National Monetary Commission, the Reichsbank p. 215



## CHAPTER X

## THE ADMINISTRATIVE MACHINERY

The Imperial Bank has an administrative machinery which is two-fold representing on the one hand the Imperial Government and on the other the private shareholders of the institution. The Government keeps a firm hand upon every portion of the machinery which can possibly affect the political influence of the Bank and its relation with the State. The very first section of the law by which the Bank was established declares that it is created, "under the supervision and direction of the Empire", and that its mission is "to regulate the monetary circulation in the entire territory of the Empire, to facilitate exchanges and to render circulating capital productive".<sup>1</sup> This theory is carried out by the appointment of a council of curators, composed of the Chancellor of the Empire and the other three by the Federal Council. The actual direction of the Bank is exercised by the Chancellor and his deputies, and in case of his absence the presidency of the council is conferred upon an official designated at least once in three months and receives a report regarding the condition of the Bank and its transactions. The real administrative control on behalf of the Government is exercised by another body, whose members are named for life by the Imperial Government upon the proposition of the Federal Council. They take action by majority vote, but are subject to the instruction of the Chancellor. This body, known as the Directors of the Imperial Bank meet regularly.<sup>2</sup>

<sup>1</sup> R. Kock, German Banking Law p.100

<sup>2</sup> National Monetary Commission, the Reichsbank p.43-45





The shareholders exercise their influence upon the business of the Bank through the central commission consists of fifteen members. Not less than nine members, and the same proportion of the fifteen substitute who are elected, are required to live in Berlin. One-third are elected every year and members are eligible for re-election. The central commission meets at least once a month under the presidency of the head board of official electors directors, and may be convoked by him on other extraordinary occasions. The Commission is required to examine every month the weekly reports of discounts, exchange, advances, cash reserve and circulation, to inspect the deposit accounts, to control the purchase and sale of gold, the volume of bills of exchange, and the despatch of cash to the branches, to verify the result of the inspections of the cash and to commission several questions connected with the business management. This commission is authorized to frame the statement of profit and loss transmitted to the Chancellor and to the shareholders in their general meeting, to make nominations for vacant places in the directorate (except to that of President) subject to the approval of the Federal Council, to determine the proportion of funds to be employed in advances, the rate of discount and the term of credit, and to regulate contracts with the other German banks in their relations with the Imperial Bank. The members of the commission receive no compensation, but they are liable to exclusion from the board if they disclose its secrets, if they are guilty of questionable business conduct or even if they are absent without good reason during an entire quarter from the meetings of the commission.<sup>1</sup> The central commission exercise a still more minute supervision over

<sup>1</sup>

National Monetary Commission, the Reichsbank p.45-50



the commercial transactions of the Imperial Bank by means of a committee of three members appointed for one year. They have the right to sit at the meeting of the official directorate with advisory powers. It is their duty, concurrently with the directorate to note the state of the market, examine the books and securities, and render accounts of their action at the monthly meeting of the commission. The official force of the Bank is treated as part of the civil service of the Empire and is subject to the same obligations. The actual salaries, honors and pensions are paid out of the profit of the Bank, but are provided for the official budget submitted to the Federal Council by the Chancellor. No employee of the Bank is permitted to hold its shares, and the accounts of the management are submitted to the public accounting officers, like those of other financial boards.<sup>I</sup>

<sup>I</sup> Banker's magazine, vol. 54, p. 366 and vol. 73, p. 265

<sup>I</sup> National Monetary Commission, the Reichsbank p. 50



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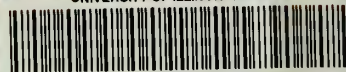








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